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C O N F I D E N T I A L SECTION 01 OF 03 ROME 003317

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TAGS: [PGOV](#) [PREL](#) [ECON](#) [IT](#)  
SUBJECT: PRODI HOUSE DIVIDED, BUT STILL STANDS

REF: A. ROME 1879  
[1](#)B. ROME 12436

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Classified By: Ambassador Ronald P. Spogli for reasons 1.4 (b) and (d).

SUMMARY

[1](#)1. (SBU) PM Prodi's 2007 budget proposal has drawn intense criticism from across the political spectrum and fueled a heated political debate about the government's durability as well as a massive protest against him and his governing coalition. Pundits generally have predicted Prodi's government should last well into 2008, and certainly through the end of the current budget battle. Nevertheless, the fierceness of the year-end budget debate and the discontent among moderates in the center-left over Prodi's perceived catering to the far left is leading many observers to predict coalition members will begin reviewing their political strategy in January.

[1](#)2. (C/NF) Prodi was originally selected as the candidate who could bridge the center-left's (CL) substantial internal differences and transition the CL into the post-Berlusconi political era. And despite the political turmoil, the factors that brought Prodi to the head of his coalition continue to hold. But the current budget debate, renewing funding for Italy's military mission in Afghanistan (February) and pension reform (April) are all divisive issues that will test the center-left's political cohesion and durability. This political situation means that preserving and advancing US objectives will be a high-level and labor-intensive task requiring regular engagement with PM Prodi, FM D'Alema, and other political heavyweights. It bears close watching, because the stronger the voice and heft of the far left becomes in this shifting scenario, the stronger the internal anti-US lobby, and the tougher our task will be. END SUMMARY.

PICKED TO BRIDGE INTERNAL CONTRADICTIONS

[1](#)3. (C/NF) Prodi's first 30 days in office suggested the image of a weak government unlikely to last long (REF A), although Prodi was showing more stamina by the time he crossed the 100-day mark (REF B). The Prime Minister's diverse nine-party coalition, with several small parties clamoring for press attention, requires constant management to contain its inherent centrifugal forces. So far, Prodi has kept the government together with the same political assets that brought him to power: (1) his ability to bridge strong

internal contradictions within the center left; (2) the desire of coalition parties to stay in power; (3) their common opposition to former PM Berlusconi; and (4) the lack of any other acceptable political alternative in the short term. But Prodi's allies picked him, a politician without his own strong and loyal base of support, to be a compromise leader -- not to actually lead, except perhaps with his chin.

#### THE BUDGET THAT PLEASES NOBODY

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¶4. (C/NF) The 2007 budget package had been viewed as having the potential to expose the coalition's strong internal differences. Prodi presented a revenue and budget proposal generally considered heavy on taxes and light on structural reform. In fact, no sector is pleased except EU technocrats guarding the Maastricht-imposed fiscal deficit/GDP ratio and the far-left political parties that anchor one end of Prodi's coalition. Nevertheless, Prodi has managed to move the budget package through a series of parliamentary hurdles and final passage, albeit with some modifications, appears imminent.

#### PASSING THROUGH A POLITICAL TRANSITION

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¶5. (C/NF) Former PM Berlusconi has thoroughly dominated Italian politics since 1994, and his political shadow is long. The former prime minister's collapse at a political rally in late November encouraged speculation about who might take over the leadership of the center-right. However, his subsequent mega-rally, on December 2, attracting at least 700,000 participants (some estimates reach 2 million), confirmed Berlusconi as Italy's most dynamic political figure and the still-undisputed leader of the center-right.

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¶6. (C/NF) Three weeks ago, Berlusconi was reported to have said he believed he would never become PM again. He later recanted this, but a Berlusconi aide told Poloff that the former PM does want to leave a legacy that will outlast his period in government. His December 2 announcement about the planned Party of Liberty could be that legacy -- the new group would be a combination of Forza Italia and Gianfranco Fini's National Alliance that would institutionalize the current Center-Left/Center-Right bipolarity. However, creation of such a party will take some time.

¶7. (C/NF) Meanwhile, probing the possibilities of an enlarged centrist party is Pierferdinando Casini, the President of the Union of Christian Democrats of the Center (UDC). Casini, who recently split from the center-right coalition, will also need time to plot his strategy. As a practical matter, therefore, the need for time provides a de facto incentive for some center-right parties to provide behind-the-scenes assistance to Prodi -- even as they pillory him as the enemy to rally their own center-right constituencies.

¶8. (C/NF) On the left, there is parallel movement to create a new Democratic Party. This, taken together with the moves on the right, and the soundings among centrist parties about a recreated center, reflect an effort by Italy's political class to reorganize itself and mark this as a period of transition. Prodi was seen by the CL as the ideal candidate to occupy Palazzo Chigi while the political repositioning takes place. In the calculus of moderate party leaders within the center-left, Prodi can take the brunt of the political hits for unpopular policies (i.e. radical left policies) while the odesates prepare their next step.

.. THAT IS NOT YET COMPLETE

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¶9. (C/NF) Prodi insists he will remain for a full five-year term, though virtually all political observers predict he will not last beyond another two years. In fact, the chattering classes have been brimming with various post-Prodi scenarios since the moment the voting booths closed. Each scenario represents the ambition of someone hoping to benefit, but there are solid (long and involved) arguments against each, at least in the short run.

¶10. (C/NF) More generally, the conditions that took Prodi to the top of the CL ticket, while under stress, are nevertheless holding: (1) In the absence of new elections, which are highly unlikely in the near term, Prodi's bridging ability among the parties supporting the government will still be needed; (2) the benefits of staying in power still outweigh those of abandoning an unpopular government; (3) Berlusconi still scowls in the wings; (4) neither of the two largest CL parties, the DS and the Daisy, wants to see the other occupy the PM seat.

¶11. (C/NF) Early next year, the government must vote refunding of Italy's military mission to Afghanistan in the face of rising opposition from the far-left. It has also committed itself to pension reform, which is highly controversial, by Easter. These two issues will be tough tests of Prodi's ability to bridge differences between moderates and radicals within his coalition. In this situation, if he cannot find solutions acceptable to all, the political calculus could change, as moderate parties weigh the longer-term political costs of remaining associated with a government that they view as tilting too far to the left.

COMMENT

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¶12. (C/NF) Putting all of this together, we expect increased speculation after December about the merits of a technical or institutional government to replace Prodi. How serious that talk will be will depend on how Prodi emerges from the budget debate and whether the aforementioned conditions continue to provide the glue needed, under stepped-up political pressure, to hold the coalition together in its current form. In the center-right, Berlusconi's health is a wild card, and his weekend visit to the U.S. for a second opinion on his heart condition will encourage political maneuvering within his party and the center-right. Another wild card is Casini. Seeing that Berlusconi has all but crowned former FM Fini as his heir apparent, Casini needs to make some strategic choices. He could choose to bide his time, provide undercover support to Prodi, and hope conditions come to

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favor emergence of an enlarged centrist party. Or, he could return to the center-right fold.

¶13. (C/NF) All the political angling during this transition period means preserving and advancing US objectives will be a high-level and labor-intensive task requiring regular engagement with FM D'Alema, PM Prodi, and other political heavyweights. It will bear close watching, because the stronger the voice of the far left, the stronger the current government's internal anti-US lobby, and the tougher our task becomes. So it should be an unusually warm spring in Italian politics.

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